

## Message Text

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ORIGIN EA-06

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FM SECSTATE WASHDC

TO AMEMBASSY MANILA

C O N F I D E N T I A L STATE 074707

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E.O. 11652:GDS

TAGS:ENRG, RP

SUBJ: MOBIL OIL IN THE PHILIPPINES

REF: MANILA 3182

1. MOBIL OIL VICE PRESIDENT FOR THE FAR EAST ROGER MAXON AND WASHINGTON REPRESENTATIVE WILLIAM BECKETT VISITED EA/PHL ON APRIL 1 TO DISCUSS MOBIL'S SITUATION IN THE PHILIPPINES.

2. MAXON DESCRIBED A MEETING IN MANILA IN FEBRUARY WITH SECRETARY PATERNO, PNOC PRESIDENT VELASCO AND SOLICITOR GENERAL MENDOZA. HE NOTED THAT THE ATMOSPHERE HAD BEEN FRIENDLY AND CONCILIATORY UNTIL PATERNO HAD TO LEAVE FOR ANOTHER ENGAGEMENT. FOLLOWING HIS DEPARTURE, WITH VELASCO IN CHARGE THE ATMOSPHERE SOURED AND THE MEETING BROKE UP WITH NO PROGRESS TOWARD AGREEMENT. MOBIL HAD HOPED FOR FURTHER DISCUSSIONS WITH PATERNO WHEN HE CAME TO NEW YORK IN LATE MARCH; AT THAT TIME, HOWEVER PRESUMABLY UNDER INSTRUCTIONS, PATERNO DECLINED TO DISCUSS THE SITUATION BEYOND INDICATING THAT GOP DESIRE FOR 60 CONTROL OF BATAAN REFINING REMAINED UNCHANGED.

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3. MAXON SAID MOBIL IS NOW UNDER PRESSURE IN SEVERAL WAYS. IT IS CONCERNED ABOUT THE MAY 27 DEADLINE FOR LAND DIVESTITURE; THE PNOC MAJORITY ON THE BOARD OF DIRECTORS, LED BY VELASCO, HAD REPEATEDLY REFUSED TO CONSIDER MOBIL'S

PROPOSALS TO DIVEST THE REFINERY'S LAND. ALSO, THE GASOLINE PRICE FREEZE, WHICH MAXON ASSUMES WILL BE LIFTED AS SOON AS PNOC HAS ITS WAY IN THE DISPUTE WITH MOBIL, IS NOW CAUSING MOBIL TO LOSE \$1 MILLION A MONTH IN ITS PHILIPPINE OPERATIONS. MOREOVER, SHELL'S MOVES TOWARD A 40/60 POSITION LEFT MOBIL AND CALTEX EXPOSED.

4. ACCORDINGLY, MOBIL IS NOW WILLING TO CONSIDER A REASONABLE GOP OFFER FOR THE THREE PERCENT OF BATAAN REFINING WHICH PNOC WANTS. HOWEVER, MOBIL IS CONCERNED THAT PNOC MAY NOT GIVE A FAIR PRICE IN FORCED SALE SITUATION, FEARING THAT OFFER MIGHT BE BASED ON BOOK VALUE. THIS WOULD BE UNSATISFACTORY, SINCE, COMPANY ARGUES, PRESENT REPLACEMENT VALUE WOULD BE AT LEAST TWICE ORIGINAL INVESTMENT. MAXON SAID TOTAL INVESTMENT BY MOBIL IN REFINERY IS ABOUT \$30 MILLION (OF WHICH THREE FORTY-THIRDS WOULD REPRESENT \$2.09 MILLION). MOBIL ALSO FEELS IT IS ENTITLED TO SOME COMPENSATION FOR RELINQUISHING ITS OPTION ON THE OTHER SEVEN PER CENT.

5. MAXON SAID MOBIL RECOGNIZES EARLIER HARD LINE DID NOT WORK AND, IN ADDITION TO MOVES TOWARD ACCEPTANCE OF 60/40 REGIME, HAS ADOPTED CONCILIATORY APPROACH REGARDING CANCELLATION OF TECHNICAL CONTRACT, ALTHOUGH RESERVING RIGHT TO SEEK ARBITRATION AS LAST RESORT. HE SAID, HOWEVER MOBIL'S DIRECTORS, IF FORCED TO ACCEPT A LOSS, WOULD SEEK TO RETALIATE THROUGH TRADE ACT OR OTHER STRICTURES AGAINST EXPROPRIATION, AND THROUGH USE OF INFLUENCE WITH U.S. BANKS. COMPANY WONDERED WHAT ASSISTANCE COULD BE OBTAINED FROM U.S. GOVERNMENT IN ASSURING ADEQUATE COMPENSATION.

6. DEPTOFFS NOTED, THAT AS VISITORS KNEW, IT HAD BEEN OUR VIEW AND THAT OF EMBASSY FOR SOME TIME THAT GOP DETERMINED TO OBTAIN 60 OF BRC AND WE SAW NO WAY TO PRECLUDE THAT. HOWEVER, OBSERVED THAT GOP RETAINS CONCERN CONFIDENTIAL

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OVER INTERNATIONAL CREDIT STANDING AND IS AWARE THAT EXPROPRIATION COULD BE COSTLY BECAUSE OF TRADE ACT PROVISIONS AND OTHER CONSEQUENCES. DEPT OFFS ALSO OBSERVED THAT MARCOS HAS USUALLY WORKED OUT DEAL IN THE END WHICH AT LEAST AVOIDS LOSS FOR FOREIGN INVESTORS, PROVIDED QUESTIONS OF NATIONAL PRIDE ARE NOT INVOLVED, AND THAT EMBASSY HAS SOMETIMES BEEN ABLE TO ASSIST IN ATTAINING SUCH OUTCOME.

7. ASKED ABOUT REPORTING OF COMMENTS TO THE EMBASSY, MAXON  
SAID HE WOULD WANT TO BE SURE MOBIL'S PHILIPPINE REP WALES  
GOT WORD DIRECTLY FIRST, BUT HAD NO OBJECTION TO OUR  
INFORMING EMBASSY FOR ITS OWN BACKGROUND INFORMATION OF  
MOBIL'S WILLINGNESS TO CONSIDER A REASONABLE GOP PURCHASE  
OFFER. KISSINGER

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